



NOTES TO THE FINANCIAL STATEMENTS

(Prepared under PRC Accounting Rules and Regulations)

1 BACKGROUND OF THE COMPANY

China Southern Airlines Company Limited (the "Company") and its subsidiary companies (collectively the "Group") are principally engaged in the provision of domestic, Hong Kong regional and international passenger, cargo and mail airline services, with flights operating primarily from the Guangzhou Baiyun International Airport, which is both the main hub of the Group's route network and the location of its corporate headquarters.

The Company is a joint stock limited company established by China Southern Air Holding Company ("CSAHC") pursuant to approval document Ti Gai Sheng 【1994】 No. 139 from the State Commission for Economic Restructuring of the Peoples' Republic of China ("PRC"). CSAHC injected airline-related assets and liabilities as at 1 January, 1994 into the Company in exchange for 2,200,000,000 domestic shares with a par value of RMB1.00 each. The Company was established on 25 March, 1995, and took over the control of the airline business from CSAHC since that date.

Pursuant to an approval document Zheng Wei Fa 【1997】 No. 33 from the China Securities Regulatory Commission, the Company listed its 1,174,178,000 H Shares on both the Stock Exchange of Hong Kong Limited and the New York Stock Exchange in July 1997.

Pursuant to an extraordinary general meeting of shareholders held on 21 May, 2002, a resolution was passed authorising the Company to issue not more than 1,000,000,000 A shares of par value of RMB1.00 each. Pursuant to an approval document (2003) No. 70 from the China Securities Regulatory Commission, the Company issued and listed its 1,000,000,000 A shares with a par value of RMB1.00 each on the Stock Exchange of Shanghai in July 2003.

On 13 March, 2003, the Company obtained an approval certificate Wai Jing Mao Zi Yi 【2003】 No. 273 from the Ministry of Commerce to change to a permanent limited company with foreign investments and obtained the business licence (Qi Gu Guo Fu Zi No. 000995) on 17 October, 2003 issued by the State Administration of Industry and Commerce of the People's Republic of China.

2 CHANGE IN ACCOUNTING POLICY

The Company changed its accounting policy in order to conform with the revised "Accounting standard for business enterprises – Events occurring after the balance sheet date" ("Revised Standard"). According to the original standard, the appropriation of profit for the current year approved by the board of directors after the balance sheet date was an adjusting event. Pursuant to the revised "Accounting standard for business enterprises – Events occurring after the balance sheet date" (Cai Kuai 【2003】 No. 12) issued by the Ministry of Finance ("MOF") on 14 April, 2003, cash dividends for the current period declared and approved by the board of directors after the balance sheet date, but before the financial statements are authorised for issue, should be presented separately under shareholders' funds on the balance sheet. The Company has adopted the Revised Standard by adjusting retrospectively for the dividend for 2001 which was paid in 2002.

This change in accounting policy has no impact on the retained profits as at 1 January, 2003. The effect of the change in accounting policy for prior years is set out below:

	Before adjustment RMB'000	Adjustment RMB'000	After adjustment RMB'000
Retained profits at 1 January, 2002	344,859	67,484	412,343



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of the financial statements conform to the Accounting Standards for Business Enterprises and the “Accounting Regulations for Business Enterprises” and other relevant regulations issued by the MOF. Pursuant to a notice Cai Kuai (2003) No.18 from the MOF, the Group adopts the “Accounting Method for Civil Aviation Industry” since 1 January, 2003. The significant accounting policies adopted in the preparation of these financial statements are set out below:

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The consolidated financial statements have been prepared in accordance with “Accounting Regulations for Business Enterprises” and Cai Kuai Zi 【1995】 No.11 “Provisional regulations on consolidated financial statements” issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities in which the Company has more than 50% equity interest or those entities controlled by the Company. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when the Company has more than 50% equity interest, or when the Company does not have more than 50% equity interest, but has control over those entities. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements. For those subsidiaries whose assets and results of operations are not significant and have no significant effect on the Group’s consolidated financial statements, the Company does not consolidate these subsidiaries.

Where the accounting policies adopted by subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant intercompany balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

For those jointly controlled entities which the Company has joint control with other investors under contractual arrangements, the Company consolidates their assets, liabilities, revenues, costs and expenses based on the proportionate consolidation method according to the percentage of holding of equity interest in those entities in the consolidated financial statements.

(c) Basis of preparation

The financial statements of the Group have been prepared on an accrual basis under the historical costs convention, unless otherwise stated.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Reporting currency

The financial statements are prepared in Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the gains and losses relating to the transactions referred to below, are dealt with in the income statement.

Exchange differences directly relating to the purchase or construction of fixed assets (including exchange differences on funds borrowed specifically for the purchase or construction of fixed assets) before they are ready for use are capitalised as part of the cost of fixed assets.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

(g) Allowance for doubtful accounts

Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivable showing no sign of uncollectibility, allowance is made with reference to the ageing analysis and management's estimation based on past experience.

Allowances for other receivables are made based on the nature of the receivables and estimation of the corresponding collectibility risk.

(h) Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are carried at the lower of cost and net realisable value. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realisable value of each class of inventories is recognised as a provision for diminution in value of inventories. Net realisable value is determined based on amount recoverable in the normal course of business after the balance sheet date or estimates made by management based on market conditions. Inventories are recorded using the perpetual stocking method.

Inventories are amortised in full when issue for use.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Long-term equity investments

Long-term investments are stated at the lower of cost and the recoverable amount. A provision for impairment is determined on an individual basis on difference between the cost and the recoverable amount, if the latter is lower.

A long-term equity investment in an investee enterprise that the Company has the power to control, jointly control or exercise significant influence over is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of the net assets of the enterprise. Equity investment difference, which is the difference between the initial investment cost and the Company's share of the equity of the investee enterprise, is accounted for as follows:

- Any excess of the initial investment cost over the Company's share of the equity is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement.
- Any shortfall of the initial investment cost over the Group's share of investors' equity is amortised on a straight-line basis over 10 years if the investment was acquired before the issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai 【2003】 No. 10) on 7 April, 2003. Otherwise, the shortfalls are recognised in "Capital surplus - reserve for equity investment".

A long-term equity investment in an investee enterprise that the Group does not control, jointly control or exercise significant influence over is accounted for under the cost method. Investment income is recognised when an investee enterprise declares a cash dividend or distributes profits.

Upon disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying value of the investments is recognised in the income statement.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for rendering services and administrative purposes with useful lives over 1 year and comparatively high unit values.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Construction in progress are stated in the balance sheet at cost less impairment losses. Valuation is carried out in accordance with the relevant rules and regulations in the PRC and fixed assets and construction in progress are adjusted to the revalued amounts accordingly.

All direct and indirect costs related to the acquisition or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs, which include foreign exchange differences, on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Pursuant to an approval document Cai Kuai Han 【2004】 No. 39 from the MOF, the Group accounts for rotables as fixed assets.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. The respective estimated useful lives, residual values and annual depreciation rates for fixed assets are as follows:

	Depreciable life	Residual value
Owned and leased aircraft	8 to 15 years	28.75%
Other flight equipment:		
– Jet engines	8 to 15 years	3%
– Others, including high value rotables	8 to 15 years	Nil
Buildings	15 to 40 years	Nil
Machinery and equipment	5 to 10 years	3%
Motor vehicles	6 years	3%

Land use rights are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses, and are amortised on a straight line basis over the period for land use rights.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Leased assets

(i) Finance lease

A finance lease is a lease that transfers substantially all the risks and benefits of ownership of an asset to the lessee, whether or not the legal title to the asset is eventually transferred. Flight equipment acquired by way of finance leases are stated at an amount equal to the lower of their original carrying value in the books of the legal owner (the lessor) and the present value of the minimum lease payments at inception of the lease. Depreciation of leased assets is calculated using the straight-line method. If there is no reasonable certainty that the lessee will obtain ownership of the leased assets at the end of the lease term, the leased assets are depreciated over the shorter of the lease term or their estimated useful lives. If there is reasonable certainty that the lessee will obtain ownership of the leased assets at the end of the lease term, the leased assets are depreciated over their estimated useful lives. At the inception of the lease, the minimum lease payments are recorded as obligations under finance leases. The difference between the value of the leased assets and the minimum lease payments is recognised as unrecognised finance charges under finance leases.

Unrecognised finance charges are amortised on an effective interest method over the lease term.

(ii) Operating Lease

An operating lease is a lease other than a finance lease. Operating lease payments are charged to the income statement on a straight line basis over the terms of the related leases. Contingent rental is recognised as expenses of the current period when actually occurs.

(l) Deferred expenditure

Custom duties and other direct costs in relation to modifying, introducing and certifying certain operating leased aircraft are deferred and amortised on a straight line basis over the terms of the related leases.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Impairment of long-term investments, fixed assets, construction in progress and other assets

The carrying amounts of individual assets are reviewed regularly to determine whether the recoverable amounts have declined below the carrying value. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the estimated net selling price and the estimated value in use. In determining the value in use, estimated future cash flows to be generated by the asset are discounted to their present value. The provision for impairment loss is determined on an item-by-item basis and recognised as an expense in the income statement.

If there is an indication that an impairment loss recognised for an asset in prior years may no longer exist, or if there has been a change in the estimates used to determine the recoverable amount, which reduces the impairment loss, the provision for impairment loss is reversed. The reversed amount is credited to the income statement in the period in which the reversal is recognised.

(n) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises current and deferred tax.

Current tax is calculated at the applicable tax rate on taxable profit.

Deferred tax is provided under the liability method, for timing differences between the accounting profit before tax and the taxable profit arising from the differences in the accounting and tax treatment of income and expenses or losses. When the tax rates change or new types of tax are levied, adjustments are made to the amounts originally recognised for the timing differences. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from the tax value of losses, which are expected to be utilised against future taxable income, are set off against the deferred tax liabilities of the same tax payer and within the same jurisdiction. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Maintenance and overhaul costs

Routine maintenance and repairs and overhauls in respect of owned aircraft and aircraft held under finance leases are expensed as and when incurred. In respect of aircraft held under operating leases, a provision is made over the lease term for the estimated cost of scheduled overhauls that are required to be performed on the related aircraft prior to their return to the lessors.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Passenger, cargo and mail revenues are recognised when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage;
- (ii) Revenues from airline-related businesses are recognised when the relevant services are rendered;
- (iii) Interest income is recognised on a time-apportioned basis on the principal outstanding and at the applicable rate; and
- (iv) Dividend income is recognised when the Group's right to receive the dividend is established.

(q) Traffic commissions

Traffic commissions are expensed when the transportation is provided and the related revenue is recognised. Traffic commissions for transportation not yet provided are recorded on the balance sheet as a prepaid expense.

(r) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period in which the assets are brought to their intended uses.

Except for the above borrowing costs, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(s) Dividends

Cash dividends to shareholders are recognised in the income and profit appropriation statement when approved. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' equity in the balance sheet.

(t) Retirement benefits

Contributions to retirement schemes and additional retirement benefits paid to retired employees are charged to the income statement as and when incurred.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

3 SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Frequent flyer award programmes

The Group maintains two frequent flyer award programmes, namely, the China Southern Airlines Sky Pearl Club and Egret Mileage Plus, which provide travel awards to members based on accumulated mileage. The estimated incremental cost of providing free travel is recognised as an expense and accrued as a current liability as members accumulate mileage. As members redeem awards or their entitlements expire, the incremental cost liability is reduced accordingly, to reflect the acquittal of the outstanding obligations.

Revenue from mileage sales to third parties under the frequent flyer award programmes is recognised when the related transportation services are provided.

(v) Related party

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

4 TAXATION

(a) Taxes applicable to rendering of services by the Group are as follows:

Categories of taxes	Tax rates	Basis of tax
Business tax	3% or 5%	Traffic revenue, ground services income and commission income. All inbound international and Hong Kong regional flights are exempted from business tax.
City construction tax	7%	Business tax
Education surcharge	3%	Business tax

Pursuant to approval documents Cai Shui 【2003】 No. 113 and Cai Shui 【2003】 No. 227 jointly issued by the MOF and State Tax Bureau, passenger revenue from airline operations are exempted from business tax, city construction tax and education surcharge during the period from 1 May, 2003 to 31 December, 2003.

As mentioned in Note 1 to the financial statements, the Company's status has changed to foreign investment enterprise. Accordingly, pursuant to the relevant regulations, the Company is exempted from city construction tax and education surcharge since 1 October, 2003.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

4 TAXATION (cont'd)

(b) Income tax

The tax rate applicable to the Company for the period from 1 January, 2003 to 30 September, 2003 and for the period from 1 October, 2003 to 31 December, 2003 is 33% and 15% respectively.

On 17 October, 2003, the Company's registered address was moved to Guangzhou Economic & Technology Development Zone. In accordance with the Rules and Regulations for Implementation of Income Tax for Foreign Investment Enterprises and Foreign Enterprises of the PRC and a taxation approval document "Guangzhou Municipal State Tax Bureau Suo De Shui Zi Que 020043", the Company is entitled to enjoy the preferential tax policy implemented in the Guangzhou Economic & Technology Development Zone effective 1 October, 2003. As a result, the Company's income tax rate has been changed to 15% beginning from that date.

In respect of the Group's overseas airline activities, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and PRC government, or has sustained tax losses in these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for the period.

Certain subsidiaries and jointly controlled entities of the Company have been granted with tax concessions which are set out below:

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Zhuhai Airlines Company Limited	15%	Operated in a special economic zone and accordingly enjoyed a reduced income tax rate pursuant to documents Cai Shui Zi (86) No. 122 and Cai Shui Zi (87) No. 115.
Southern Airlines Group Shantou Airlines Company Limited	15%	Ditto
Xiamen Airlines Company Limited	15%	Ditto
Guangzhou Nanland Air Catering Company Limited	27%	Pursuant to Rules and Regulations for Implementation of Income Tax for Foreign Investment Enterprises and Foreign Enterprises of the PRC, the applicable state income tax rate is 24% and local income tax rate is 3%
Zhuhai Xiang Yi Aviation Technology Company Limited	-	Pursuant to Zhu Guo Shui Hang 【2003】 94 issued by Zhuhai Municipal State Tax Bureau, the entity was exempted from income tax.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

4 TAXATION (cont'd)

(b) Income tax (cont'd)

Name of jointly controlled entity	Applicable tax rate	Reasons for granting concession
Guangzhou Aircraft Maintenance Engineering Company Limited	15%	Pursuant to Sui Guo Shui Zhi Fa 【2001】 No. 77 issued by Guangzhou Municipal State Tax Bureau, the applicable income tax rate is 15% since 2000.

(c) Tax payable

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Enterprise income tax	46,052	33,734	-	-
Business tax	25,224	75,256	2,732	35,998
City construction tax	1,663	5,463	956	3,032
Value added tax	12,829	6,694	177	250
Other	16,366	1,510	7,236	471
Total	102,134	122,657	11,101	39,751

5 CAAC INFRASTRUCTURE DEVELOPMENT FUND

The CAAC infrastructure development fund is levied at a certain percentage on traffic revenue and payable to the CAAC. Pursuant to the regulation, Cai Zhong Zi 【1999】 No. 11 jointly issued by the MOF and the State Development Commission, the CAAC infrastructure development Fund is levied at 5% and 2% on domestic traffic revenue and international/Hong Kong regional traffic revenue respectively.

Pursuant to the approval documents Cai Zong Ming Dian No. 1 and Ming Hang Ji No. 2026, the Group was exempted from paying the CAAC infrastructure development fund during the period from 1 May, 2003 to 31 December, 2003.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(Prepared under PRC Accounting Rules and Regulations)

6 CASH AND CASH EQUIVALENTS

	The Group				The Company			
	2003		2002		2003		2002	
	Original currency '000	RMB '000	Original currency '000	RMB '000	Original currency '000	RMB '000	Original currency '000	RMB '000
Cash in hand								
Renminbi	-	1,544	-	1,817	-	716	-	1,171
US Dollars	334	2,766	581	4,806	321	2,660	559	4,628
Other currencies	-	1,081	-	1,311	-	682	-	1,128
		5,391		7,934		4,058		6,927
Cash at bank								
Renminbi	-	1,382,773	-	2,613,406	-	623,670	-	1,584,559
US Dollars	31,562	261,227	26,642	220,522	17,890	148,069	13,694	113,354
HK Dollars	10,136	10,802	43,443	46,096	3,570	3,805	27,198	28,860
Japanese Yen	536,855	41,479	1,243,503	85,846	536,855	41,479	1,243,503	85,846
Singapore Dollars	2,399	11,657	6,128	29,237	2,399	11,657	6,128	29,237
Thai Bahts	55,520	11,587	72,633	13,901	52,496	10,956	66,690	12,764
Malaysian Kroners	20,489	44,503	51,127	111,303	18,522	40,229	51,127	111,303
Euro	1,921	19,860	6,305	54,451	1,764	18,235	5,862	50,623
Korean Won	13,440,253	95,359	2,087,009	14,380	13,472,347	93,296	1,813,465	12,495
Vietnam Dong	41,530,902	21,974	12,182,156	6,554	41,530,902	21,974	12,182,156	6,554
Australian Dollars	5,653	35,056	8,251	38,603	5,201	32,252	8,251	38,603
Other currencies	-	8,837	-	2,088	-	8,837	-	1,763
		1,945,114		3,236,387		1,054,459		2,075,961
Deposits in financial institution								
Renminbi	-	370,978	-	540,503	-	346,357	-	516,973
US Dollars	-	-	43,550	360,476	-	-	43,550	360,476
		370,978		900,979		346,357		877,449
Total		2,321,483		4,145,300		1,404,874		2,960,337

Deposits in financial institution represent deposits with Southern Airlines Group Finance Company Limited ("SA Finance"), a PRC authorised financial institution controlled by CSAHC and an associated company of the Group (Note 45).



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

6 CASH AND CASH EQUIVALENTS (cont'd)

The Group does not have any collateralised or frozen bank deposits as at 31 December, 2003. As at 31 December, 2003, the Group's overseas bank deposits amounted to RMB342,555,000 (2002: RMB441,078,000). These overseas bank deposits are not subject to any significant risk of uncollectibility.

The above cash, bank deposits and deposits with financial institution denominated in foreign currencies are translated into Renminbi at the following exchange rates:

	2003	2002
US Dollar	8.2767	8.2773
HK Dollar	1.0657	1.0611
Japanese Yen	0.077263	0.069035
Singapore Dollar	4.85865	4.77050
Thai Baht	0.2087	0.1914
Malaysian Ringgit	2.172	2.1770
Euro	10.3383	8.6360
Korean Won	0.006925	0.006890
Vietnam Dong	0.0005291	0.0005380
Australian Dollar	6.2013	4.6787

Note: Balances dominated in foreign currencies in these financial statements are translated into Renminbi at the above rates, unless otherwise stated.

7 TRADE RECEIVABLES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Gross trade receivables	961,824	803,080	739,958	505,172
Less: Provision for bad and doubtful debts	69,997	60,118	56,752	28,640
	891,827	742,962	683,206	476,532



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

7 TRADE RECEIVABLES (cont'd)

The ageing analysis of trade receivables is as follows:

The Group

	2003				2002			
	Amount	% of total trade receivables	Bad debt provision	% of bad debt provision	Amount	% of total trade receivables	Bad debt provision	% of bad debt provision
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within 1 year	896,722	93.2%	4,895	0.5%	771,411	96.1%	28,449	3.7%
After 1 year but within 2 years	42,408	4.4%	42,408	100.0%	18,176	2.3%	18,176	100.0%
After 2 years but within 3 years	14,383	1.5%	14,383	100.0%	5,150	0.6%	5,150	100.0%
After 3 years	8,311	0.9%	8,311	100.0%	8,343	1.0%	8,343	100.0%
Total	961,824	100.0%	69,997	7.3%	803,080	100.0%	60,118	7.5%

The Company

	2003				2002			
	Amount	% of total trade receivables	Bad debt provision	% of bad debt provision	Amount	% of total trade receivables	Bad debt provision	% of bad debt provision
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within 1 year	684,656	92.5%	1,450	0.2%	491,032	97.2%	14,500	3.0%
After 1 year but within 2 years	42,106	5.7%	42,106	100.0%	7,499	1.5%	7,499	100.0%
After 2 years but within 3 years	8,267	1.1%	8,267	100.0%	2,228	0.4%	2,228	100.0%
After 3 years	4,929	0.7%	4,929	100.0%	4,413	0.9%	4,413	100.0%
Total	739,958	100.0%	56,752	7.7%	505,172	100.0%	28,640	5.7%



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

7 TRADE RECEIVABLES (cont'd)

Provision for bad and doubtful debts

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Balance as at 1 January,	60,118	59,019	28,640	28,108
Add: Charge for the year	12,031	1,162	9,072	595
Transfer in arising from dissolution of subsidiary	-	-	19,040	-
Less: Write-off during the year	2,152	63	-	63
Balance as at 31 December,	69,997	60,118	56,752	28,640

There were no receivables from shareholders who hold 5% or more of the voting rights of the Company in the balance of trade receivables.

During the year, the Group and the Company had no individually significant recovery of doubtful debts that had been fully or substantially provided for in prior years.

At 31 December, 2003, the Group and the Company did not have any individually significant trade receivables aged over three years.

At 31 December, 2003, the total amounts of the Group's and the Company's largest 5 trade receivables were as follows:

	The Group		The Company	
	2003	2002	2003	2002
Amounts (RMB'000)	543,365	497,388	459,410	402,238
% of total trade receivables	56%	62%	62%	80%

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**
*(Prepared under PRC Accounting Rules and Regulations)***8 OTHER RECEIVABLES**

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Subsidiaries	-	-	527,143	-
Related companies	17,280	12,376	17,280	12,376
Others	329,289	421,807	239,862	262,163
	346,569	434,183	784,285	274,539
Less: Provision for bad and doubtful debts	29,904	29,904	29,904	29,904
	316,665	404,279	754,381	244,635

Provision for bad and doubtful debts

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Balance at 1 January and 31 December,	29,904	29,904	29,904	29,904



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

8 OTHER RECEIVABLES (cont'd)

The ageing analysis of other receivables is as follows:

The Group

	2003				2002			
	Amount	% of total other receivables	Bad debt provision	% of bad debt provision	Amount	% of total other receivables	Bad debt provision	% of bad debt provision
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within 1 year	285,290	82.3%	-	0.0%	382,663	88.1%	-	-
After 1 year but within 2 years	20,568	5.9%	-	0.0%	15,679	3.6%	-	-
After 2 years but within 3 years	7,330	2.1%	-	0.0%	7,336	1.7%	4,702	64.1%
After 3 years	33,381	9.7%	29,904	89.6%	28,505	6.6%	25,202	88.4%
Total	346,569	100.0%	29,904	8.6%	434,183	100.0%	29,904	6.9%

The Company

	2003				2002			
	Amount	% of total other receivables	Bad debt provision	% of bad debt provision	Amount	% of total other receivables	Bad debt provision	% of bad debt provision
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within 1 year	740,164	94.3%	-	0.0%	233,540	85.1%	-	0.0%
After 1 year but within 2 years	7,709	1.0%	-	0.0%	9,878	3.6%	-	0.0%
After 2 years but within 3 years	5,358	0.7%	-	0.0%	4,702	1.7%	4,702	100.0%
After 3 years	31,054	4.0%	29,904	96.3%	26,419	9.6%	25,202	95.4%
Total	784,285	100.0%	29,904	3.8%	274,539	100.0%	29,904	10.9%

There were no receivables from shareholders who hold 5% or more of the voting rights of the Company in the balance of other receivables.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

8 OTHER RECEIVABLES (cont'd)

During the year, the Group and the Company had no individually significant recovery of doubtful debts that had been fully or substantially provided for in prior years.

At 31 December, 2003, the Group and the Company did not have any individually significant other receivables aged over three years.

At 31 December, 2003, the total amounts of the Group's and the Company's largest 5 other receivables were as follows:

	The Group		The Company	
	2003	2002	2003	2002
Amounts (RMB'000)	110,757	191,323	458,800	188,854
% of total trade receivables	32%	44%	58%	69%

9 ADVANCE PAYMENTS

All advance payments are due within one year. There was no amount due from shareholders who hold 5% or more of the voting rights of the Company in the balance of advance payments.

10 INVENTORIES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At cost:				
Expendable spare parts	572,649	598,223	182,742	96,614
Consumables	35,388	23,567	16,485	8,375
Aviation supplies	20,372	18,740	10,562	9,762
Others	3,260	12,481	1,700	1,898
Total	631,669	653,011	211,489	116,649

At 31 December, 2003, no provision for impairment in value was necessary for the inventories of the Group and the Company.

All of the above inventories were obtained by way of purchases.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

10 INVENTORIES (cont'd)

The Group's and the Company's cost of inventories charged to costs and expenses in the income statement were as follows:

	2003 RMB'000	2002 RMB'000
The Group	501,125	521,038
The Company	293,454	201,064

11 PREPAID EXPENSES

	Notes	The Group		The Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Operating lease rentals	(a)	127,099	118,233	75,091	72,897
Ticket sales commission	(b)	20,900	20,900	18,500	18,500
Catering and consumables	(c)	33,313	15,687	-	13,317
Insurance premium		11,098	2,454	11,004	2,454
Others		10,960	8,480	9,722	2,725
Total		203,370	165,754	114,317	109,893

Notes:

- (a) Pursuant to aircraft operating lease agreements, the Group is required to prepay one to six months' rentals to lessors. The prepaid rentals are then amortised over the relevant lease period. The balance at the period end represents the unamortised balance of the prepaid rentals.
- (b) The Group pays sales commission to sales agents for tickets sales. The sales commission is initially recorded as a prepaid expense and charged to the income statement upon the provision of the related transportation service.
- (c) A jointly controlled entity of the Group is principally engaged in the provision of engine repair and maintenance services. Consumables consumed prior to the completion of the related engine repairs and maintenance are recorded as prepaid expenses and charged to income statement upon the completion of the related engine repairs and maintenance.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS

The Group

	Investments in associated companies RMB'000	Share investments RMB'000	Other equity investments RMB'000	Total RMB'000
Balance as at 1 January, 2003	379,796	57,438	139,616	576,850
Add: Additions	–	–	4,209	4,209
Adjustment under equity accounting method	44,536	–	–	44,536
Less: Disposals	2,131	–	1,092	3,223
Balance as at 31 December, 2003	422,201	57,438	142,733	622,372

The Company

	Investments in subsidiaries RMB'000	Investments in associated companies RMB'000	Investments in jointly controlled entities RMB'000	Share investments RMB'000	Other equity investments RMB'000	Total RMB'000
Balance as at 1 January, 2003	3,201,545	271,275	716,094	1,208	100,000	4,290,122
Add: Additions	2,999	8,487	–	–	540	12,026
Adjustment under equity accounting method	303,901	33,362	(72,413)	–	–	264,850
Amortisation of equity investment differences	2,050	–	–	–	–	2,050
Less: Disposals	906,631	2,131	–	–	–	908,762
Dividends received	2,668	–	–	–	–	2,668
Balance as at 31 December, 2003	2,601,196	310,993	643,681	1,208	100,540	3,657,618

At 31 December, 2003, no provision for impairment of the long-term equity investments of the Group and the Company was necessary.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS (cont'd)

In connection with the Group's overseas listing, the assets of the Group as at 31 December, 1996 were revalued. As a result of this revaluation, the Company's subsidiaries had a net revaluation deficit amounting to RMB30,284,000. The Company made corresponding adjustments amounting to RMB20,498,000 to investments in these subsidiaries. These adjustments were recorded as equity investment differences and amortised on a straight-line basis over 10 years, which represented the estimated remaining useful lives of the revalued assets of the subsidiaries. The equity investment differences are analysed as follows:

	Equity investment differences RMB'000
Original amount	20,498
Accumulated amortisation:	
At 1 January, 2003	12,300
Amortisation for the year	2,050
At 31 December, 2003	14,350
Unamortised balance:	
At 31 December, 2003	6,148
At 31 December, 2002	8,198

Details of the Group's associated companies and jointly controlled entities and the Company's subsidiaries are set out in Notes 49.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS (cont'd)

Details of the Group's and the Company's equity investments accounted for under the equity method are analysed as follows:

The Group

Investments in associated companies

	SA Finance RMB'000	Hong Kong Business Aviation Centre Company Limited RMB'000	Sichuan Airlines Corporation Limited RMB'000	Hainan Phoenix Information System Limited RMB'000	Civil Aviation Cares of Xiamen Limited RMB'000	Total RMB'000
Attributable equity interest						
Direct	32%	20%	39%	45%	–	
Indirect	15.42%	–	–	–	17.1%	
Period of operations	–	–	–	40 years	–	
Initial investment costs (as at 1 January, 2003)	246,476	17,081	136,500	61,266	570	461,893
Balance as at 1 January, 2003	224,912	15,154	139,160	–	570	379,796
Add: Adjustment under the equity accounting method	19,533	(496)	24,645	–	854	44,536
Less: Disposals	–	2,131	–	–	–	2,131
Balance as at 31 December, 2003	244,445	12,527	163,805	–	1,424	422,201



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS (cont'd)

The Company

Investments in subsidiaries

	China Southern Airlines (Group) Shenzhen Co. (Note)	Xiamen Airlines Company Limited	Southern Airlines Group Shantou Airlines Company Limited	Guangxi Airlines Company Limited	Zhuhai Airlines Company Limited	Guizhou Airlines Company Limited	Other subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Attributable equity interest:								
Direct	100%	60%	60%	60%	60%	60%	-	-
Period of operations	10 years	-	16 years	-	20 years	-	-	-
Initial investment costs								
(as at 1 January, 2003)	808,980	353,061	168,000	102,540	150,000	48,000	269,276	1,899,857
Balance as at 1 January, 2003	896,821	1,595,231	138,816	103,975	92,890	35,196	338,616	3,201,545
Add: Additions	-	-	-	-	-	-	2,999	2,999
Adjustment under the equity accounting method	-	222,175	27,836	37,942	(10,711)	8,986	17,673	303,901
Amortisation of equity investment differences	-	4,053	(162)	(1,528)	3,154	-	(3,467)	2,050
Less: Disposals	896,821	-	-	-	-	-	9,810	906,631
Dividends received	-	-	-	-	-	-	2,668	2,668
Balance as at 31 December, 2003	-	1,821,459	166,490	140,389	85,333	44,182	343,343	2,601,196

Note: China Southern Airlines (Group) Shenzhen Co., which was established in the PRC on 14 October 1993, was a wholly owned subsidiary of the Company. It was principally engaged in the provision of airline services. It had a registered capital of RMB808,980,000. Its operations and respective assets and liabilities were transferred to the Company upon its dissolution in March 2003.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS (cont'd)

The Company (cont'd)

Investments in associated companies

	SA Finance RMB'000	Hong Kong Business Aviation Centre Company Limited RMB'000	Sichuan Airlines Corporation Limited RMB'000	Hainan Phoenix Information System Limited RMB'000	Total RMB'000
Attributable equity interest:					
Direct	32%	20%	39%	45%	
Initial investment costs (as at 1 January, 2003)	127,299	17,081	136,500	61,266	342,146
Balance as at 1 January, 2003	116,961	15,154	139,160	–	271,275
Add: Additions	8,487	–	–	–	8,487
Adjustment under the equity accounting method	9,213	(496)	24,645	–	33,362
Less: Disposals	–	2,131	–	–	2,131
Balance as at 31 December, 2003	134,661	12,527	163,805	–	310,993



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS (cont'd)

The Company (cont'd)

Investments in jointly controlled entities

	China Postal Airlines Limited RMB'000	Guangzhou Aircraft Maintenance Engineering Company Limited RMB'000	MTU Maintenance Zhuhai Co., Ltd. RMB'000	Total RMB'000
Attributable equity interest				
Direct	49%	50%	50%	
Period of operations	15 years	40 years	30 years	
Initial investment costs (as at 1 January, 2003)	150,000	86,694	261,146	497,840
Balance as at 1 January, 2003	146,648	312,334	257,112	716,094
Add: Adjustment under the equity accounting method	(17,387)	20,510	(75,536)	(72,413)
Balance as at 31 December, 2003	129,261	332,844	181,576	643,681

The Group's and the Company's investments in the above companies are not subject to any restrictions on realisation of the investments and remittance of the investment returns.

The Group's and the Company's share investments are analysed as follows:

Name of invested company	Type of investment	Number of shares held	Percentage of equity interest held	Initial investment cost RMB'000	2003 RMB'000	2002 RMB'000
The Company						
Hainan Meilan International Airport Company Limited	Ordinary	925,000	0.37%	1,208	1,208	1,208
Subsidiaries:						
Travelsky Technology Limited	Legal person	21,924,500	2.5%	33,730	33,730	33,730
China Pacific Insurance Co. Ltd.	Ordinary	10,000,000	0.5%	12,480	12,480	12,480
Bank of Communications	Ordinary	6,600,000	0.008%	10,020	10,020	10,020
					57,438	57,438



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

12 LONG-TERM EQUITY INVESTMENTS (cont'd)

The Group's and the Company's other equity investments are analysed as follows:

Name of invested company	Investment period (Years)	Initial investment cost RMB'000	Percentage of equity interest held	2003	2002
				RMB'000	RMB'000
The Company:					
Haikou Meilan International Airport Company Limited					
	–	100,000	7.4%	100,000	100,000
Hunan Southern Airlines Travel Service Co. Ltd.	10	540	54%	540	–
Company's total				100,540	100,000
The subsidiaries:					
Xiamen Aviation Industry Co. Ltd.	–	20,000	10%	20,000	20,000
CAAC Express Ltd	–	7,603	5%	7,603	7,603
Xiamen Football Club	–	3,000	5.2%	3,000	3,000
China Aircraft Services Ltd.	–	1,547	1%	1,547	1,547
CAAC Data Communication Co. Ltd.	–	500	4%	500	500
Zhuhai Airlines Holiday Travel Services Co. Ltd. (Note)	10	1,092	91%	–	1,092
Zhuhai Advertising Co. Ltd. (Note)	10	300	60%	300	300
Hunan Southern Airlines Travel Service Co. Ltd. (Note)	10	540	51%	–	540
Zhuhai Air-Express Co. Ltd. (Note)	–	900	30%	900	900
Guilin Guangsheng Development Co. Ltd. (Note)	10	630	30%	630	630
Guangzhou Baiyun International Express Customs Supervision Co. Ltd. (Note)	–	2,750	55%	2,750	–
Other				4,963	3,504
				42,193	39,616
Total				142,733	139,616

Note: The impact of these companies on the Group's results is not material. Accordingly, they are accounted for under cost method (Note 49). For those companies of which the Group has more than 50% equity interest, the Company did not consolidate these companies because their aggregate assets, liabilities and results of operation had no significant effect to the Group.

At 31 December, 2003, the proportion of the total amount of the Group's and the Company's investments to the net assets was 5% and 32% respectively (2002: 6% and 48% respectively).



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

13 FIXED ASSETS

The Group

	Land use rights and buildings RMB'000	Aircraft		Other flight equipment, including rotable spares RMB'000	Machinery, equipment and motor vehicles RMB'000	Total RMB'000
		Owned RMB'000	Held under finance leases RMB'000			
Cost or valuation:						
At 1 January, 2003	3,673,349	13,510,717	11,459,978	6,458,704	1,977,561	37,080,309
Reclassification on exercise of purchase options	-	997,403	(997,403)	-	-	-
Additions	34,680	2,818,475	-	558,594	216,654	3,628,403
Transferred from construction in progress	253,833	-	-	-	121,594	375,427
Disposals	(42,138)	(104,235)	-	-	(39,662)	(186,035)
At 31 December, 2003	3,919,724	17,222,360	10,462,575	7,017,298	2,276,147	40,898,104
Accumulated depreciation:						
At 1 January, 2003	551,912	2,145,849	2,499,495	3,214,401	1,102,589	9,514,246
Reclassification on exercise of purchase options	-	389,958	(389,958)	-	-	-
Charge for the year	166,823	710,509	495,869	477,002	243,725	2,093,928
Written back on disposal	(22,155)	(54,555)	-	-	(28,780)	(105,490)
At 31 December, 2003	696,580	3,191,761	2,605,406	3,691,403	1,317,534	11,502,684
Net book value:						
At 31 December, 2003	3,223,144	14,030,599	7,857,169	3,325,895	958,613	29,395,420
At 31 December, 2002	3,121,437	11,364,868	8,960,483	3,244,303	874,972	27,566,063



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

13 FIXED ASSETS (cont'd)

The Company

	Land use rights and buildings RMB'000	Aircraft		Other flight equipment, including rotable spares RMB'000	Machinery, equipment and motor vehicles RMB'000	Total RMB'000
		Owned RMB'000	Held under finance leases RMB'000			
Cost or valuation:						
At 1 January, 2003	1,066,188	9,053,359	11,459,978	3,941,880	895,562	26,416,967
Reclassification on exercise of purchase options	-	997,403	(997,403)	-	-	-
Additions through acquisition of subsidiary	720,247	-	-	998,215	217,272	1,935,734
Additions	2,228	2,818,475	-	455,763	87,555	3,364,021
Transferred from construction in progress	91,018	-	-	-	8,228	99,246
Disposals	(347)	-	-	-	(20,178)	(20,525)
At 31 December, 2003	1,879,334	12,869,237	10,462,575	5,395,858	1,188,439	31,795,443
Accumulated depreciation:						
At 1 January, 2003	177,334	1,327,363	2,499,495	2,387,634	465,150	6,856,976
Reclassification on exercise of purchase options	-	389,958	(389,958)	-	-	-
Additions through acquisition of subsidiary	94,541	-	-	311,097	153,358	558,996
Charge for the year	74,394	514,000	495,869	373,896	116,207	1,574,366
Written back on disposal	(23)	-	-	-	(18,073)	(18,096)
At 31 December, 2003	346,246	2,231,321	2,605,406	3,072,627	716,642	8,972,242
Net book value:						
At 31 December, 2003	1,533,088	10,637,916	7,857,169	2,323,231	471,797	22,823,201
At 31 December, 2002	888,854	7,725,996	8,960,483	1,554,246	430,412	19,559,991

At 31 December, 2003, no provision for impairment of the fixed assets of the Group and the Company was necessary.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

13 FIXED ASSETS (cont'd)

At 31 December, 2003, certain aircraft and other flight equipment of the Group and the Company were mortgaged under certain bank loans and finance lease agreements (see Notes 28 and 29). The net book value of these fixed assets is analysed as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Aircraft				
Mortgaged under bank loans	6,718,737	5,822,076	4,938,698	3,933,109
Mortgaged under finance leases	7,857,169	8,960,483	7,857,169	8,960,483
Sub-total	14,575,906	14,782,559	12,795,867	12,893,592
Other flight equipment				
Mortgaged under bank loans	26,621	22,184	-	-
Total	14,602,527	14,804,743	12,795,867	12,893,592

At 31 December, 2003, the net book value of the Group's and the Company's fixed assets leased out under operating leases are analysed as follows:

	The Group and the Company	
	2003 RMB'000	2002 RMB'000
Land and buildings	147,098	-
Other flight equipment	178,053	-
	325,151	-

The useful lives for land use rights range from 30 to 70 years. At 31 December, 2003, the remaining unamortised periods range from 17 to 65 years.

At 31 December 2003, the net book values of the fully depreciated fixed assets of the Group and the Company in use were RMB60,345,000 and RMB42,800,000 respectively (2002: RMB18,704,000 and RMB9,465,000 respectively).



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

13 FIXED ASSETS (cont'd)

The Company entered into two separate arrangements (the "Arrangements") with certain independent third parties during each of 2002 and 2003. Under each of the Arrangements, the Company sold an aircraft and then immediately leased back the aircraft for an agreed period. As agreed, the lease payment obligations, with pre-determined net present values, were to be satisfied solely out of the sale proceeds and such amounts have been placed irrevocably by the Company in form of deposits and debt securities in favour of the lessors. The Company has an option to purchase the aircraft at a pre-determined date and the agreed purchase price is to be satisfied by the balance of the deposits and debt securities outstanding at that date. In the event that the lease agreement is early terminated by the Company, the Company is liable to pay a pre-determined penalty to the lessor. As long as the Company complies with the lease agreement, the Company is entitled to the continued possession and operation of the aircraft. Since the Company retains substantially all the risks and rewards incident to ownership of the aircraft and enjoys substantially the same rights to its use as before the Arrangements no adjustment has been made to the fixed assets. As at 31 December 2003, the net present value of the lease commitments and the corresponding defeased deposits and debt securities amounted to RMB2,409,252,000 (2002: RMB1,322,843,000). As a result of the Arrangements, the Company received a net cash benefit of RMB51,682,000 and RMB69,121,000 in 2002 and 2003 respectively, which has been recognised as income for the respective years.

14 CONSTRUCTION MATERIALS

The Group's and the Company's construction materials represented materials to be used for construction projects.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

15 CONSTRUCTION IN PROGRESS

Project name	Budgeted amount RMB'000	Balance	Additions during the year RMB'000	Transferred to fixed assets RMB'000	Balance	Percentage of progress	Source of funding
		at 1 January, 2003 RMB'000			at 31 December, 2003 RMB'000		
The Company							
Guangzhou new airport base	3,560,000	432,580	945,483	–	1,378,063	39%	70% bank loans
Hubei catering building	30,000	23,407	4,504	–	27,911	93%	Self-financing
Zhengzhou ticket selling office	48,500	21,988	28	–	22,016	45%	Self-financing
Material and engineering system	50,000	21,063	3	–	21,066	42%	Self-financing
Henan office building	18,880	3,717	10,269	–	13,986	74%	Self-financing
Guangzhou ticket selling office	80,000	45,988	34,012	(80,000)	–	100%	Self-financing
Computerised maintenance information system	24,000	5,923	–	(5,923)	–	25%	Self-financing
Others	118,919	83,104	10,597	(13,323)	80,378		Self-financing
Company total	3,930,299	637,770	1,004,896	(99,246)	1,543,420		
Subsidiaries							
Guangzhou new cargo centre	598,200	–	181,750	–	181,750	30%	35% bank loans
Fuzhou Chang Le airport facilities	74,600	14,839	109	(704)	14,244	19%	Self-financing
Others	198,122	86,046	–	(46,143)	39,903		Self-financing
Subsidiaries total	870,922	100,885	181,859	(46,847)	235,897		
Jointly controlled entities							
Guangzhou new airport base	434,563	53,821	98,467	(1,747)	150,541	35%	Self-financing
Zhuhai engine repair workshop	783,380	201,657	20,631	(222,288)	–	28%	70% bank loans
Others	7,220	12,831	–	(5,299)	7,532		Self-financing
Jointly controlled entities total	1,225,163	268,309	119,098	(229,334)	158,073		
Group total	6,026,384	1,006,964	1,305,853	(375,427)	1,937,390		

At 31 December 2003, no provision for impairment of the construction in progress of the Group and the Company was necessary.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

15 CONSTRUCTION IN PROGRESS (cont'd)

The Group's borrowing costs capitalised in the construction in progress for the year are as follows:

	2003 RMB'000	2002 RMB'000
Borrowing cost capitalised	83,077	64,186

The interest rates at which the Group's and the Company's borrowing costs were capitalised during the year ranged from 1.62% to 5.46% (2002: 5.70%).

16 LEASE AND EQUIPMENT DEPOSITS

	The Group				The Company			
	2003		2002		2003		2002	
	Original currency '000	RMB'000	Original currency '000	RMB'000	Original currency '000	RMB'000	Original currency '000	RMB'000
Advanced payments for purchase of aircraft (US\$)	303,940	2,515,617	210,650	1,743,610	229,487	1,899,391	210,650	1,743,610
Rental deposits for aircraft under operating leases (US\$)	50,379	416,974	48,739	403,428	39,794	329,363	38,851	321,582
		2,932,591		2,147,038		2,228,754		2,065,192

Pursuant to aircraft purchase agreements, the Group is generally required to pay a deposit equal to approximately 30% of the purchase price of the aircraft to aircraft manufacturers six months prior to delivery.

Pursuant to aircraft operating lease agreements, the Group is generally required to pay lessors rental deposits equal to approximately three months' rentals.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

17 DEFERRED EXPENDITURE

	The Group	The Company
	RMB'000	RMB'000
Original cost:		
At 1 January, 2003	261,582	168,265
Additions for the year	6,426	1,301
Write off for the year	(203,013)	(133,013)
At 31 December, 2003	64,995	36,553
Accumulated amortisation:		
At 1 January, 2003	227,446	144,796
Amortisation for the year	14,089	7,421
Written back on write off	(203,013)	(133,013)
At 31 December, 2003	38,522	19,204
Net book value:		
At 31 December, 2003	26,473	17,349
At 31 December, 2002	34,136	23,469

Deferred expenditure mainly comprises custom duties and other direct costs incurred in respect of the Group's and the Company's operating leased aircraft upon the inception of their respective leases. The deferred expenditure is amortised on a straight-line basis over the lease period of the aircraft.

At 31 December, 2003, the remaining unamortised period ranged from 2 to 3 years.

18 LONG-TERM RECEIVABLES

Long-term receivables represent insurance premium deposited with a PRC insurance company. Pursuant to the relevant insurance agreement, the insurance premium will be fully returned to the Group upon the expiry of the agreement in 2007.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

19 SHORT-TERM LOANS

The Group's and the Company's short term loans are analysed as follows:

	The Group				The Company			
	2003		2002		2003		2002	
	Original currency '000	RMB'000	Original currency '000	RMB'000	Original currency '000	RMB'000	Original currency '000	RMB'000
Unsecured loans								
US Dollars	708,879	5,867,182	318,780	2,638,639	659,422	5,457,841	272,330	2,254,158
Hong Kong Dollars	194,355	207,124	-	-	-	-	-	-
Renminbi	-	120,000	-	334,287	-	120,000	-	240,000
Sub-total		6,194,306		2,972,926		5,577,841		2,494,158
Guaranteed loans								
Renminbi		235,000	-	1,470,500		-	-	420,000
Sub-total		235,000		1,470,500		-		420,000
Total		6,429,306		4,443,426		5,577,841		2,914,158

The guaranteed loans were guaranteed by the following parties:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
CSAHC	151,000	1,470,500	-	420,000
Guangzhou Baiyun International Airport Company Limited	63,000	-	-	-
Shenzhen Yingshun Investment Development Company Limited	21,000	-	-	-
	235,000	1,470,500	-	420,000

At 31 December, 2003, the Group's and the Company's weighted average interest rates on short-term borrowings were 1.76% and 1.65% respectively (2002: 3.11% and 2.66% respectively).

At 31 December 2003, the Group and the Company had no overdue loans (2002: Nil).

There were no short-term loans payable to shareholders who hold 5% or more of the voting rights of the Company.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

20 BILLS PAYABLE

The Group

	2003		2002	
	RMB'000	%	RMB'000	%
Bank accepted bills	1,949	0.4%	24,601	1.9%
Commercial bills	445,829	99.6%	1,275,079	98.1%
Total	447,778	100.0%	1,299,680	100.0%

The Company

	2003		2002	
	RMB'000	%	RMB'000	%
Bank accepted bills	1,949	0.4%	24,601	1.9%
Commercial bills	436,135	99.6%	1,275,079	98.1%
Total	438,135	100.0%	1,299,680	100.0%

All bills payable were due within one year.

There were no bills payable to shareholders who hold 5% or more of the voting rights of the Company.

21 TRADE ACCOUNTS PAYABLE

The ageing analysis of trade accounts payable is as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 3 months	1,018,454	330,904	908,536	140,148
Over 3 but within 6 months	278,114	244,295	231,115	140,793
Over 6 months	370,815	325,727	308,153	170,556
Total	1,667,383	900,926	1,447,804	451,497



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

21 TRADE ACCOUNTS PAYABLE (cont'd)

At 31 December, 2003, the Group and the Company had no individually significant trade accounts payable aged over three years.

There was no amount payable to shareholders who hold 5% or more voting rights of the Company included in trade accounts payable.

22 SALES IN ADVANCE OF CARRIAGE

Sales in advance of carriage represent the proceeds from sales of the Group's and the Company's air tickets in advance of carriage. The sales in advance of carriage were aged within one year.

There was no amount payable to shareholders who hold 5% or more voting rights of the Company included in the balance of sales in advance of carriage.

23 CAAC INFRASTRUCTURE DEVELOPMENT FUND PAYABLE

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
At 1 January, 2003	280,706	525,607	201,476	418,730
Add: Amount for the year	250,802	798,386	167,942	375,734
Less: Payment during the year	177,916	1,043,287	76,195	592,988
At 31 December, 2003	353,592	280,706	293,223	201,476

24 OTHER CREDITORS

Other creditors represent payables for education surcharge.

25 OTHER PAYABLES

Included in other payables was a RMB165,995,000 payable to CSAHC, a shareholder who hold 5% or more voting rights of the Company.

At 31 December, 2003, the Group and the Company had no individually significant other payables aged over three years.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

26 ACCRUED EXPENSES

	Notes	The Group		The Company		Reason for accrual
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	
Custom duties and value-added tax	(a)	336,839	360,827	103,223	56,887	Accrued but not paid
Landing and takeoff fees	(b)	825,811	497,372	584,605	169,109	Accrued but not paid
Aircraft and engine repair charges	(b)	242,397	203,624	252,557	132,432	Accrued but not paid
Staff housing benefit and lump sum housing allowances	(c)	214,521	383,675	214,521	383,675	Accrued but not paid
Interest expense	(d)	157,527	174,626	137,761	150,609	Accrued but not paid
Jet fuel expenses	(b)	254,801	297,626	117,756	109,640	Accrued but not paid
Sales commissions and bonuses		62,212	39,808	62,212	9,562	Accrued but not paid
Air catering expenses	(b)	114,296	110,134	133,777	76,907	Accrued but not paid
Provision for major overhauls – current portion (Note 30)		10,717	52,000	–	–	Accrued but not paid
Seat reservation charges		54,852	21,601	42,133	6,179	Accrued but not paid
Aircraft insurance premium		–	31,137	–	18,240	Accrued but not paid
Operating lease rentals		18,144	41,396	14,813	–	Accrued but not paid
Other expenses		94,870	72,310	19,322	46,176	Accrued but not paid
Total		2,386,987	2,286,136	1,682,680	1,159,416	

Notes:

(a) Customs duties and value-added tax

Customs duties and value-added tax mainly represent custom duties and value-added tax payable by the Group in connection with purchase of aircraft. These custom duties and value-added tax payable were capitalised as part of the aircraft's costs. The Group is required to pay the customs duties and value-added tax by instalments.

(b) Landing and takeoff fees, aircraft and engine repair charges, jet fuel expenses and air catering expenses

The transaction volumes and amounts involved for the landing and takeoff fees, aircraft and engine repair costs, jet fuel expenses and air catering expenses were significant. Their settlement generally took two to three months. Therefore, such expenses were accrued in the year to which they related in order to match with the revenue.

(c) Staff housing welfare and lump sum housing allowances

Pursuant to Cai Kuai Zi (2001) No. 5 issued by the MOF, lump sum housing allowances payable to employees who joined the Company before 1998 but having not yet allocated with staff housing were recorded as accrued expense.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

26 ACCRUED EXPENSES (cont'd)

Note: (cont'd)

(d) Interest expense

Interest expense accrual was mainly from finance lease obligations and loans in connection with purchase of aircraft. The Group was generally required to repay the principal and interest once every three or six months. Therefore, the interest expense was accrued in the year to which they related.

27 LONG-TERM LIABILITIES DUE WITHIN ONE YEAR

	The Group				The Company			
	2003		2002		2003		2002	
	Original currency '000	RMB'000	Original currency '000	RMB'000	Original currency '000	RMB'000	Original currency '000	RMB'000
Long term borrowings due within one year (Note 28)								
Guaranteed (RMB)	-	1,580	-	-	-	-	-	-
Unsecured (RMB)	-	63,810	-	-	-	-	-	-
Mortgaged and guaranteed (US\$)	73,647	609,553	96,225	796,485	46,048	381,127	66,255	548,415
Mortgaged (US\$)	1,582	13,097	2,576	21,315			2,024	16,749
Sub-total		688,040		817,800		381,127		565,164
Obligations under finance leases due within one year (Note 29)								
Mortgaged and guaranteed								
- US Dollars	135,357	1,120,312	154,214	1,276,473	135,357	1,120,312	154,214	1,276,473
- Japanese Yen	2,297,904	177,543	4,204,027	290,225	2,297,904	177,543	4,204,027	290,225
Sub-total		1,297,855		1,566,698		1,297,855		1,566,698
Total		1,985,895		2,384,498		1,678,982		2,131,862



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

28 LONG-TERM BORROWINGS

The Group

	Interest rate	2003 Original currency '000	RMB'000	Interest rate	2002 Original currency '000	RMB'000
Renminbi loans:						
Loans for construction projects	4.94% to 5.25%	-	89,144	4.94% to 6.21%	-	969,994
	Non-interest bearing	-	3,000	Non-interest bearing	-	3,000
Loans for purchase of aircraft	5.49%	-	63,500	5.02% to 5.43%	-	2,310,268
US dollar loans:						
Loans for purchase of aircraft	1.48% to 8.33%	618,341	5,117,821	5.00% to 8.33%	413,908	3,426,038
Loans for purchase of flight equipment	8.35%	1,582	13,097	8.35%	2,427	20,090
Loans for construction projects	1.91% to 1.94%	21,887	181,156		-	-
			5,467,718			6,729,390
Less: Current portion of long-term borrowings (Note 27)			688,040			817,800
			4,779,678			5,911,590



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

28 LONG-TERM BORROWINGS (cont'd)

The Company

	2003			2002		
	Interest rate	Original currency '000	RMB'000	Interest rate	Original currency '000	RMB'000
Renminbi loans:						
Loans for construction projects	-	-	-	5.22% to 6.21%	-	850,000
Loans for purchase of aircraft	-	-	-	5.02% to 5.43%	-	2,231,768
US dollar loans:						
Loans for purchase of aircraft	1.48% to 8.33%	489,522	4,051,626	5.00% to 8.33%	255,128	2,111,768
			4,051,626			5,193,536
Less: Current portion of long-term borrowings (Note 27)			381,127			565,164
			3,670,499			4,628,372



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

28 LONG-TERM BORROWINGS (cont'd)

The long-term borrowings by borrowing terms are analysed as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Unsecured loans	85,149	110,307	-	-
Guaranteed loans	430,451	2,501,305	228,800	2,410,118
Mortgaged loans	2,387,532	756,833	2,324,435	736,743
Mortgaged and guaranteed loans	2,564,586	3,360,945	1,498,391	2,046,675
	5,467,718	6,729,390	4,051,626	5,193,536

The guaranteed loans were guaranteed by the following parties:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
CSAHC	420,399	1,939,774	228,800	1,860,118
SA Finance	10,052	561,531	-	550,000
	430,451	2,501,305	228,800	2,410,118

The mortgaged and guaranteed loans were secured by mortgages over certain of the Group's and the Company's aircraft (Note 13), and were guaranteed by the following parties:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Export-Import Bank of the United States	2,207,393	2,680,801	1,236,160	1,536,835
Bank of China	357,193	604,010	262,231	433,706
China Construction Bank	-	76,134	-	76,134
	2,564,586	3,360,945	1,498,391	2,046,675

The mortgaged loans were secured by mortgages over certain of the Group's and the Company's aircraft and other flight equipment (Note 13).



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

28 LONG-TERM BORROWINGS (cont'd)

The maturity analysis of the long-term borrowings is as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Balance due:				
Within one year	688,040	817,800	381,127	565,164
In the second year	682,492	842,036	401,466	522,482
In the third year	488,225	1,078,074	257,299	760,740
After the third year	3,608,961	3,991,480	3,011,734	3,345,150
	5,467,718	6,729,390	4,051,626	5,193,536

There was no amount due to shareholders who hold 5% or more of the voting rights of the Company included in the balance of long-term borrowings.

29 OBLIGATIONS UNDER FINANCE LEASES

The Group and the Company

	2003 RMB'000	2002 RMB'000
At 1 January,	8,198,449	9,143,563
Add: Additions for the year	–	426,192
Effect due to fluctuations of foreign exchange rates	197,880	174,911
Less: Payments during the year	1,555,390	1,546,217
At 31 December,	6,840,939	8,198,449
Less: Balance due within one year (Note 27)	1,297,855	1,566,698
	5,543,084	6,631,751



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

29 OBLIGATIONS UNDER FINANCE LEASES (cont'd)

Obligations under finance leases represent the Group's commitments under finance lease agreements in respect of aircraft and related equipment expiring during 2004 to 2009. At 31 December, 2003, the weighted average interest rate for obligations under finance leases was 5.88%. Future payments of the Group's and the Company's obligations under finance leases are as follows:

	2003 RMB'000	2002 RMB'000
Balance due:		
Within one year	1,297,855	1,566,698
In the second year	1,066,451	1,273,144
In the third year	1,196,858	1,066,263
After the third year	3,279,775	4,292,344
	6,840,939	8,198,449

Under the terms of the leases, the Group has an option to purchase, at or near the end of the lease term, certain aircraft at fair market value and others at either fair market value or a percentage of the respective lessor's defined cost of the aircraft.

Certain of the Group's and the Company's aircraft were pledged to secure facilities with financial institutions granted to lessors. The carrying amounts of these aircraft at 31 December, 2003 are disclosed in Note 13.

The Group's and the Company's obligations under finance leases were guaranteed by the following parties:

	2003 RMB'000	2002 RMB'000
Bank of China	2,577,034	3,608,705
The Industrial and Commercial Bank of China	4,263,905	4,589,744
Total	6,840,939	8,198,449



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

29 OBLIGATIONS UNDER FINANCE LEASES (cont'd)

At 31 December, 2003, the Group's and the Company's obligations under finance leases analysed by original currencies were as follows:

	2003		2002	
	Original currency '000	RMB'000	Original currency '000	2002 RMB'000
US Dollars	478,058	3,956,739	613,415	5,077,419
Japanese Yen	20,531,761	1,586,345	22,515,137	1,554,332
		5,543,084		6,631,751

Balance due within one year is disclosed in Note 27 to the financial statements.

There was no amount due to shareholders who hold 5% or more of the voting rights of the Company included in the balance of obligations under finance leases.

30 PROVISION FOR MAJOR OVERHAULS

	The Group RMB'000	The Company RMB'000
Balance at 1 January, 2003	193,887	63,389
Including current portion	52,000	—
Add: Provision for the year	68,620	67,603
Less: Utilisation during the year	62,326	—
Balance at 31 December, 2003	200,181	130,992
Less: Current portion included in accrued expenses (Note 26)	10,717	—
	189,464	130,992



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

31 DEFERRED CREDITS

The Group and the Company

	Gain on sale and lease back transaction RMB'000	Rebates on aircraft operating lease RMB'000	Total RMB'000
Cost:			
At 1 January, 2003 and 31 December, 2003	258,899	24,385	283,284
Accumulated amortisation:			
At 1 January, 2003	18,465	15,408	33,873
Amortisation for the year	29,588	2,661	32,249
At 31 December, 2003	48,053	18,069	66,122
Net book value:			
At 31 December, 2003	210,846	6,316	217,162
At 31 December, 2002	240,434	8,977	249,411

Pursuant to certain sale and leaseback arrangements, the Company sold certain aircraft to independent third parties and then entered into operating leases with such parties to lease back the aircraft for a period of eight to nine years. The gains on sale and leaseback arrangements, being the excess of the sale proceeds, which approximated the aircraft's fair value on the date of disposal, over the aircraft's net book value and related disposal costs, were deferred and amortised over the period the aircraft were expected to be used.

Pursuant to certain operating lease arrangements for aircraft entered into in 1998, the Group received cash rebates totalling RMB24,385,000 from a lessor. Such rebates have been deferred and amortised over the terms of the respective leases.

32 DEFERRED TAXATION

The movements of net deferred tax liabilities are as follows:

	The Group RMB'000	The Company RMB'000
Balance at 1 January, 2003	1,043,303	734,607
Less: Addition for the year (Note 44)	135,420	155,510
Effect of change in income tax rate (Note 4b & 44)	516,245	516,245
Sub-total	651,665	671,755
Balance at 31 December, 2003	391,638	62,852



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

32 DEFERRED TAXATION (cont'd)

The net deferred tax liabilities were made up of the taxation effects of:

	Notes	The Group		The Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Deferred tax assets:					
Tax losses	(a)	222,936	149,338	222,936	149,338
Repairs and maintenance accruals	(b)	87,608	63,896	93,097	69,385
Rotable repair charges capitalised	(c)	261,312	319,697	199,292	259,147
Accrued expenses	(d)	18,883	115,543	18,883	115,543
Gains on sale and leaseback transactions	(e)	31,627	80,703	31,627	80,703
Other		8,989	32,580	10,829	32,580
Total deferred tax assets		631,355	761,757	576,664	706,696
Deferred tax liabilities:					
Undistributed profits of subsidiaries	(f)	–	254,210	–	254,210
Repairs and maintenance accruals	(b)	80,545	78,083	–	–
Depreciation of fixed assets	(g)	872,741	1,403,278	615,503	1,187,093
Other		69,707	69,489	24,013	–
Total deferred tax liabilities		1,022,993	1,805,060	639,516	1,441,303
Net deferred tax liabilities		(391,638)	(1,043,303)	(62,852)	(734,607)

Notes:

(a) Tax losses

Pursuant to relevant tax regulations, taxable losses can be carried forward over a maximum period of five years to be offset against future taxable profits. The deferred tax is recognised based on the unutilised taxable losses and estimated future taxable profits.

(b) Repairs and maintenance accruals

Certain of the Group's and the Company's overhaul expenses were deductible on a cash payment basis for taxation purposes. According to the accounting policies adopted in these financial statements, overhaul expenses are expensed as and when incurred. The Group and the Company recognised deferred tax for these timing differences.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

32 DEFERRED TAXATION (cont'd)

Note: (cont'd)

(c) Rotable repair charges capitalised

Pursuant to relevant tax regulations, repair charges for rotables are initially capitalised and amortised over five years for taxation purposes. According to the accounting policies adopted in these financial statements, repair charges for rotables are expensed as and when incurred. The Group and the Company recognised deferred tax for these timing differences.

(d) Accrued expenses

Certain of the Group's and the Company's expenses are deductible on a cash payment basis for taxation purposes. In the preparation of these financial statements, these expenses are accounted for on an accrual basis. The Group and the Company recognised a deferred tax for these timing differences.

(e) Gains on sale and leaseback transactions

Pursuant to relevant tax regulations, gains on sale and leaseback transactions are taxable in the period they arise. According to the accounting policies adopted in these financial statements, these gains are recorded as deferred credits and amortised over the terms of the leases. The Group and the Company recognised deferred tax on these timing differences.

(f) Undistributed profits of subsidiaries

In 2002, the Company was required to pay additional tax on the dividends or profits received from certain subsidiaries that enjoyed preferential tax rates at a rate representing the difference between the Company's applicable rate of 33% and the subsidiaries' applicable tax rates. As stated in Note 1 to the financial statements, the Company's status has changed to a foreign investment enterprise in 2003. Accordingly, this deferred tax liability has been written back in 2003.

(g) Depreciation of fixed assets

This deferred tax was recognised for the timing difference arising from the difference between the aircraft depreciation rates for accounting purposes and the rates used for taxation purposes.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

33 SHARED CAPITAL

	2003 RMB'000	2002 RMB'000
Registered capital:		
2,200,000,000 domestic shares of RMB1.00 each	2,200,000	2,200,000
1,174,178,000 H shares of RMB1.00 each	1,174,178	1,174,178
1,000,000,000 A shares of RMB1.00 each	1,000,000	–
	4,374,178	3,374,178
Issued and paid up capital:		
2,200,000,000 domestic shares of RMB1.00 each	2,200,000	2,200,000
1,174,178,000 H shares of RMB1.00 each	1,174,178	1,174,178
1,000,000,000 A shares of RMB1.00 each	1,000,000	–
	4,374,178	3,374,178

Pursuant to an extraordinary general meeting of shareholders held on 21 May, 2002, a resolution was passed authorising the Company to issue not more than 1,000,000,000 A shares of par value of RMB1.00 each. Pursuant to an approval document 【2003】 No. 70 from the China Securities Regulatory Commission, the Company issued and listed its 1,000,000,000 A shares with a par value of RMB1.00 each on the Shanghai Stock Exchange in July 2003.

The receipts of above paid-in capital were verified by KPMG Huazhen which issued capital verification reports on 31 December, 1994, 10 September, 1997 and 17 July, 2003 respectively.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

34 CAPITAL RESERVES

The Group and the Company

	2003 RMB'000	2002 RMB'000
Balance at 1 January,	4,160,578	4,160,578
Share premium from A shares issue, net of issuance costs	1,640,767	-
Balance at 31 December,	5,801,345	4,160,578

35 SURPLUS RESERVES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Statutory surplus reserve				
Balance at 1 January,	337,195	285,860	337,195	285,860
Add: Profit appropriations	23,856	51,335	1,449	51,335
Balance at 31 December,	361,051	337,195	338,644	337,195
Statutory public welfare fund				
Balance at 1 January,	171,574	145,907	171,574	145,907
Add: Profit appropriations	1,113	25,667	724	25,667
Balance at 31 December,	172,687	171,574	172,298	171,574
Discretionary surplus reserve				
Balance at 1 January,	76,603	69,867	76,603	69,867
Add: Profit appropriations	-	6,736	-	6,736
Balance at 31 December,	76,603	76,603	76,603	76,603
Total	610,341	585,372	587,545	585,372



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

36 PROFIT APPROPRIATION

- (a) Appropriations to various reserves

Pursuant to the Board of Directors' resolution on 23 April, 2004, the Company made appropriations to the following funds for year 2003:

- | | | |
|------|-------------------------------|-----|
| (i) | Statutory surplus reserve | 10% |
| (ii) | Statutory public welfare fund | 5% |

- (b) On 23 April, 2004, the Board of Directors did not recommend the payment of a final dividend to ordinary shareholders.

37 REVENUE FROM PRINCIPAL OPERATIONS

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Passenger	15,342,458	16,899,811	10,183,596	8,563,545
Cargo and mail	2,008,548	1,905,699	1,734,297	933,261
	17,351,006	18,805,510	11,917,893	9,496,806

Revenue from principal operations represent revenues from airline businesses. The Group's geographical information is set out in Note 46.

The total revenue from the Group's and the Company's top five customers and their percentage of the total revenue are analysed as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Amounts (RMB'000)	259,668	293,548	223,260	238,212
% of total revenue	1.5%	1.6%	1.9%	2.5%



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

38 BUSINESS TAXES AND SURCHARGES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Business tax	175,598	482,200	121,044	234,597
City construction tax	10,134	28,318	8,031	15,690
Education surcharge	4,950	14,732	3,413	5,637
	190,682	525,250	132,488	255,924

39 PROFIT FROM OTHER OPERATIONS

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Sales commission income	145,810	137,928	125,535	115,906
General aviation income	3,006	(11,394)	860	13,754
Ground services income	78,683	38,156	78,833	34,605
Aircraft lease income	–	38,712	–	38,712
Air catering income	15,812	8,618	–	–
Others	82,638	113,307	47,832	61,386
Total	325,949	325,327	253,060	264,363

40 FINANCIAL EXPENSES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Interest expense incurred	906,802	1,023,379	792,004	903,620
Less: Capitalised interest expense	83,077	64,186	83,077	64,186
Net interest expense	823,725	959,193	708,927	839,434
Interest income	(13,061)	(52,618)	(7,666)	(42,446)
Net foreign exchange loss	164,443	175,451	169,805	179,947
Bank charges	20,443	13,193	16,578	11,958
	995,550	1,095,219	887,644	988,893

Net foreign exchange loss arose mainly from the Group's and the Company's Japanese Yen denominated finance lease obligations due to fluctuations in the exchange rate of Japanese Yen.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

41 INVESTMENT INCOME

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Investment income accounted for				
Under cost method	17,140	3,765	25	–
Under equity method	44,536	6,708	264,850	266,506
Amortisation of equity investment differences	–	–	2,050	2,050
	61,676	10,473	266,925	268,556

There are no major restrictions on the remittance of the Group's and the Company's investment returns.

42 NON-OPERATING INCOME

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Gain on sale of fixed assets	21,560	1,995	2,655	52
Others	21,523	6,632	15,241	2,782
	43,083	8,627	17,896	2,834

43 NON-OPERATING EXPENSES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Loss on sale of fixed assets	40,574	30,649	134	7,032
Fines and compensations	338	474	338	413
Donations	2,106	1,447	287	838
Others	28,462	7,961	23,203	1,046
	71,480	40,531	23,962	9,329



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

44 INCOME TAX

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Provision for income tax	46,938	71,651	–	–
Deferred taxation (Note 32)	(651,665)	281,579	(671,755)	235,008
	(604,727)	353,230	(671,755)	235,008

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related party with controlling relationship

Name of company:	China Southern Air Holding Company
Registered address:	Guangzhou Baiyun International Airport, Guangdong Province
Principal business:	Management of the companies' operations within the group and the sale of products
Relationship with the Company:	The ultimate holding company
Nature of ownership:	State-owned
Legal representative:	Yan Zhi Qing
Registered capital:	RMB2,198,980,000

At 31 December, 2003 and 2002, CSAHC held 2,200,000,000 Legal Person Shares of the Company totalling RMB2,200,000,000.

(b) Relationship between the Company and related parties without controlling relationship

(i) Companies that are under the control of CSAHC, i.e. subsidiaries of CSAHC:

- Southern Airlines (Group) Import and Export Trading Company
- Zhongyuan Airlines Company
- Southern Airlines (Group) Economic Development Company
- Nanlung Travel & Express (H.K.) Ltd.
- Golden Royal International Travel Ltd.
- Shenzhen Baiyun Air Service Co. Ltd.
- SA Finance
- Xinjiang Airlines Company
- China Northern Airlines Company



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
(Prepared under PRC Accounting Rules and Regulations)

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(b) Relationship between the Company and related parties without controlling relationship (cont'd)

(ii) Companies that are under the significant influence of CSAHC

– Shenzhen Air Catering Company Limited

(iii) Jointly controlled entities of the Group:

– Guangzhou Aircraft Maintenance Engineering Company Limited

– MTU Maintenance Zhuhai Co. Ltd.

– China Postal Airlines Limited

(iv) Associated companies of the Group:

– Hong Kong Business Aviation Centre Company Limited

– Sichuan Airlines Corporation Limited



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(c) The principal related party transactions carried out during the year were as follows:

	Note	2003 RMB'000	2002 RMB'000
Expenses			
Handling charges	(1)	27,051	36,306
Wet lease rentals	(2)	35,751	26,164
Sundry aviation supplies	(3)	42,849	101,350
Advertising expenses	(4)	–	3,275
Commission expenses	(5)	4,896	16,725
Air catering expenses	(6)	28,199	29,058
Repairing charges	(7)	346,652	296,156
Housing benefits	(8)	85,000	85,000
Lease charges for land and buildings	(9)	15,224	15,224
Trademark	(10)	–	–
Income			
Interest income	(11)	3,100	10,530
Wet lease rentals	(12)	–	27,599
Others			
Short-term loans	(13)	165,995	–
Refund of medical benefit payments	(14)	58,120	–
Acquisition of interest in subsidiaries	(15)	–	107,846
Acquisition of fixed assets	(16)	–	946,866

Notes:

- (1) Handling charges represent fees payable to Southern Airlines (Group) Import and Export Trading Company in connection with the procurement of aircraft and flight equipment on the Group's behalf. The purchase amount was RMB1,154,553,000 for the year. Handling charges are calculated based on a fixed percentage of the procurement value by reference to market rates. The fees are generally paid by the end of the following month.
- (2) Pursuant to a wet lease agreement effective October 2002, the Group paid rentals to Xinjiang Airlines Company in respect of one Boeing 757-200 aircraft. The wet lease rentals are calculated by reference to market rates. The rentals payable were settled on the 14th day of the following month. The wet lease agreement was terminated in April 2003.
- (3) Sundry aviation supplies represent purchases of sundry aviation supplies from Southern Airlines (Group) Economic Development Company. Prices are determined by reference to market prices. The payable is generally settled by the end of the following month.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(c) The principal related party transactions carried out during the year were as follows: (cont'd)

Notes: (cont'd)

- (4) Advertising expenses represent advertising fees payable to Southern Airlines Advertising Company ("SAAC") for advertising and promotional services rendered to the Group. The fees are determined by reference to market rates. Annual budgeted advertising expenses are paid in a lump sum at the beginning of every year. Other advertising expenses are generally paid by the end of the following month. SAAC became a subsidiary of the Company in August 2002 and has been consolidated into the Group's consolidated financial statements since then.
- (5) Commission expenses represent commission payable to Nanlung Travel & Express (H.K.) Ltd., South China International and Aviation and Travel Services Company, Golden Royal International Travel Ltd. and Shenzhen Baiyun Air Service Co. Ltd. in connection with air tickets sold by them on the Group's behalf. The Group's aggregate amount of ticket sales conducted through these agents was RMB143,016,000 for the year ended 31 December, 2003. The commission rates are based on the rates stipulated by the CAAC. The commission expense payable is offset directly against the sales proceeds receivable from them.

South China International and Aviation and Travel Services Company became a subsidiary of the Company in August 2002 and has been consolidated in the Group's consolidated financial statements since then.
- (6) Air catering expenses represent fees payable to Shenzhen Air Catering Company Limited for providing inflight meals to the Group. CSAHC holds a 33% equity interest in the company. Prices are determined by reference to market prices. The payable is generally settled by the end of the following month.
- (7) Repair charges represent fees payable to Guangzhou Aircraft Maintenance Engineering Company Limited and MTU Maintenance Zhuhai Co. Ltd. in connection with comprehensive aircraft maintenance services rendered to the Group. Fees are charged based on market prices. Fees amounting to RMB346,652,000 were eliminated upon the proportional consolidation of these companies.
- (8) Housing benefits payable to CSAHC represent the difference between the carrying amounts of the quarters sold to the employees of the Group and the proceeds from sales of these quarters by CSAHC. The payment is determined based on number of quarter allocated and the construction cost of the housing sold over the sales prices, and is payable in accordance with the related agreement.
- (9) Lease charges for land and buildings represent rentals payable to CSAHC by the Group under certain lease agreements in respect of certain land and buildings of CSAHC. The rentals are determined based on market rents. The rental payments are due in June and December of each year.
- (10) The Company and CSAHC have entered into a 10-year Trademark Licence Agreement dated 22 May 1997, pursuant to which CSAHC acknowledged that the Company has the right to use the name "China Southern" and "China Southern Airlines" in both Chinese and English, and granted to the Company a renewable royalty-free licence to use the kapok logo on a world-wide basis in connection with the Company's airline and airline-related businesses. Unless CSAHC gives written notice of termination three months before the expiration of the agreement, the agreement will be automatically extended for another 10-year term.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(c) The principal related party transactions carried out during the year were as follows: (cont'd)

Notes: (cont'd)

- (11) Interest income represents the interest received from deposits placed with SA Finance by the Group (Note 6). The applicable interest rate is determined in accordance with the deposit rate published by the People's Bank of China. Interest income is received quarterly. Please refer to Note 45(d) for the balance of deposits at the end of each year.
- (12) Pursuant to a wet lease agreement, the Company received wet lease rentals from wet leasing an Airbus 320-200 aircraft to Sichuan Airlines Corporation Limited. The rentals were determined by reference to market rentals. The rentals payable were settled on the 10th day of the following month.
- (13) During the year, CSAHC made short term cash advances to the Group. These advances were unsecured, interest free and repayable on demand. As at 31 December, 2003, the advances amounted to RMB165,995,000.
- (14) The Group provides retirees with medical benefits, transportation subsidies and other welfare facilities. Previously, the Group paid a fixed annual fee to CSAHC in return for CSAHC providing such benefits to the retired employees of the Group. With effect from 1 January, 2002, such arrangement was terminated. During 2003, CSAHC refunded to the Group the difference between the aggregate fixed annual fees received from the Group and the aggregate cost of services incurred by CSAHC.
- (15) In August 2002, the Company acquired a 90% equity interest in each of Guangzhou Aviation Hotel, Southern Airlines Advertising Company and South China International Aviation & Travel Services Company from CSAHC at an aggregate cash consideration of approximately RMB107,846,000. The consideration was determined by reference to the valuation reports dated 18 March, 2002, prepared by Guangzhou Asset Appraisal Corp.. The consideration was settled in 2002.
- (16) During 2002, the Group acquired five Boeing 737-300/37K aircraft and related spare parts and certain vehicles from Zhongyuan Airlines, a subsidiary of CSAHC, at a consideration of approximately RMB1,096,866,000. The consideration was satisfied by cash of approximately RMB132,130,000 together with an assumption by the Group of Zhongyuan Airlines' debts of approximately RMB964,736,000. This consideration was determined by reference to the valuation reports prepared by Zhongfeng Valuation Company Limited.

In addition to the above, certain business undertakings of CSAHC provided transportation, hotel and other services to the Group during the year. The total amount involved was not material to the results of the Group for the year.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(d) The balances with related parties are set out below:

	Relationship	2003 RMB'000	2002 RMB'000
Cash at bank and in hand			
SA Finance	Other related party	370,978	909,979
Trade receivables			
Nanlung Tranve & Express (H.K.) Ltd.	Other related party	54,161	89,550
Golden Royal International Travel Ltd.	Other related party	7,545	7,545
Shenzhen Baiyun Air Service Co. Ltd.	Other related party	338	4,000
Other receivables			
Southern Airlines (Group) Import and Export Trading Company	Other related party	17,280	12,376
Long-term receivable			
Hong Kong Business Aviation Centre Company Limited	Associated company	-	16,869
Trade accounts payable			
Southern Airlines (Group) Import and Export Trading Company	Other related party	693,345	267,468
Guangzhou Aircraft Maintenance Engineering Company Limited	Jointly controlled entity	155,716	106,063
Xinjiang Airlines Company	Other related party	80,891	8,500
China Northern Airlines Company	Other related party	336,783	-
Other payables			
CSAHC	Ultimate holding company	165,995	-
Accrued expenses			
MTU Maintenance Zhuhai Co. Ltd	Jointly controlled entity	46,990	-

(e) Guarantees provided by related parties and other contingent liabilities:

- (i) Other than the guarantees provided by CSAHC and SA Finance to banks in respect of certain loans of the Group (Note 19 and Note 28), there were no guarantees provided by related parties.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

45 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (cont'd)

(e) Guarantees provided by related parties and other contingent liabilities: (cont'd)

- (ii) The Demerger Agreement dated 25 March, 1995 (such Agreement was amended by Amendment No. 1 dated 22 May, 1997) was entered into between the CSAHC and the Company for the purpose of defining and allocating the assets and liabilities between CSAHC and the Company. Under the Demerger Agreement, CSAHC and the Company have agreed to indemnify the other party against, among other things, claims, liabilities and expenses incurred by the other party but relating to the businesses, assets and liabilities held or assumed by CSAHC or the Company pursuant to the Demerger Agreement. From the date of the Demerger Agreement to the date on which these financial statements are authorised for issue, there have been no incidences of compensation in respect of claims, assets or liabilities held or assumed by CSAHC or the Company.

- (iii) The Company leases from CSAHC certain land in Guangzhou and certain land and buildings in Wuhan and Haikou. The Group has significant investments in buildings and other leasehold improvements located on such land. However, such land in Guangzhou and such land and buildings in Wuhan and Haikou lack adequate documentation evidencing the SA Group's ownership thereto.

Pursuant to Compensation Agreement dated 22 May, 1997, CSAHC agrees to indemnify the Group against any loss or damage caused by any challenge or interference with the Group's use of any of above land and buildings.

The directors of the Company are of the opinion that the above transactions with related parties were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

46 GEOGRAPHICAL INFORMATION

The Group engages in a single operation, i.e. the provision of airline services. Geographic information about the Group's profit from principal operation are as follows:

	Domestic	Hong Kong	(Note) International	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2003				
Net revenue from principal operations	13,242,875	793,047	3,064,282	17,100,204
Less: Cost of principal operations	10,935,717	699,536	2,586,712	14,221,965
Business taxes and surcharges	155,935	4,789	29,958	190,682
Profit from principal operations	2,151,223	88,722	447,612	2,687,557
2002				
Net revenue from principal operations	13,647,250	1,137,928	3,221,946	18,007,124
Less: Cost of principal operations	9,796,521	618,917	2,702,666	13,118,104
Business taxes and surcharges	449,679	19,233	56,338	525,250
Profit from principal operations	3,401,050	499,778	462,942	4,363,770

Note: Mainly routes between the PRC and Asian countries, the United States of America, the Netherlands, Belgium and Australia.

The major revenue-earning assets of the Group is its aircraft fleet, most of which is registered in the PRC. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis for allocating its assets to geographic segments. Substantially all of the Group's non-aircraft identifiable assets are located in the PRC.

47 CONTINGENT LIABILITIES

New Link Consultants Limited filed a lawsuit with the High Court in Hong Kong against the Company alleging violation of certain agreements in respect of the procurement of aviation inventories, and lodged a claim. The Company has conducted a detailed assessment of the claim and concluded that the Company will be successful in defending itself, and as the lawsuit is still at a preliminary stage, no provision for contingent liabilities is required in these financial statements.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

48 COMMITMENTS

(i) Capital commitments

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Commitments in respect of aircraft and related equipment – authorised and contracted for	10,615,079	5,875,996	7,739,290	5,875,996
Commitments in respect of investments in the Guangzhou new airport – authorised and contracted for	617,277	525,700	617,277	525,700
– authorised but not contracted for	1,454,661	2,601,720	1,454,661	2,601,720
	2,071,938	3,127,420	2,071,938	3,127,420
Other commitments – authorised and contracted for	256,707	107,610	29,628	42,968
– authorised but not contracted for	991,860	1,121,545	229,302	245,440
	1,248,567	1,229,155	258,930	288,408
	13,935,584	10,232,571	10,070,158	9,291,824



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

48 COMMITMENTS (cont'd)

(i) Capital commitments (cont'd)

At 31 December, 2003, the Group had on order 2 Boeing 757-200 aircraft, 13 Boeing 737-700 aircraft, 4 Airbus 330-200 aircraft, 6 Embraer ERJ-145 aircraft and certain flight equipment, scheduled for deliveries in 2004 and 2005. Deposits of RMB2,494,853,000 have been made towards the purchase of these aircraft and related equipment. At 31 December, 2003, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and related equipment are as follows:

	The Group RMB'000	The Company RMB'000
Payments due		
In 2004	4,584,823	3,248,674
In 2005	6,030,256	4,490,616
	10,615,079	7,739,290

(ii) Operating lease commitments

The Group's and the Company's commitments under non-cancellable aircraft and flight equipment operating leases were as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Payments due:				
Within one year	1,482,888	1,280,060	1,193,892	1,044,720
In the second year	1,411,520	1,327,631	1,169,104	1,107,150
In the third year	1,143,745	1,245,150	969,189	1,071,252
After the third year	4,081,704	4,683,797	3,718,788	4,487,062
	8,119,857	8,536,638	7,050,973	7,710,184

(iii) Investing commitments

As at 31 December, 2003, the Company was committed to making a capital contribution of approximately RMB446,000,000 (2002: RMB201,000,000) to its jointly controlled entities.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

49 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES, AND JOINTLY CONTROLLED ENTITIES

The particulars of the Company's principal subsidiaries, and the Group's associated companies and jointly controlled entities as at 31 December, 2003 are as follows:

(i) Principal subsidiaries

Name of company	Place and date of establishment/ operation	Attributable/ equity interest		Issued/ registered capital (Note a)	Principal activities
		Direct %	Indirect %		
China Southern Airlines (Group) Zhuhai Helicopter Company Limited	PRC 31 August, 1983	100	–	100,000,000	Helicopter Transportation
Guangxi Airlines Company Limited	PRC 28 April, 1994	60	–	170,900,000	Airline
China Southern Airlines (Group) Shantou Airlines Company Limited	PRC 20 July, 1993	60	–	280,000,000	Airline
Zhuhai Airlines Company Limited	PRC 8 May, 1995	60	–	250,000,000	Airline
Xiamen Airlines Company Limited	PRC 11 August, 1984	60	–	588,434,000	Airline
Guizhou Airlines Company Limited	PRC 12 November, 1991	60	–	80,000,000	Airline
Guangzhou Nanland Air Catering Company Limited (Note b)	PRC 21 November, 1989	51	–	55,980,000	Air catering
Hunan Southern China Aviation & Travel Services Company (Note d)	PRC 6 August, 1998	54	–	1,000,000	Travel services
Guangzhou Aviation Hotel	PRC 8 January, 1997	90	–	63,290,000	Hotel operation
Southern Airlines Advertising Company	PRC 3 March, 1994	90	–	2,000,000	Aviation advertising
Southern China International Aviation & Travel Services Company	PRC 11 May, 1992	90	–	2,100,000	Travel services
Guangzhou Baiyun International Logistic Company Ltd.	PRC 23 July, 2002	61	–	20,000,000	Logistic operations



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

49 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES, AND JOINTLY CONTROLLED ENTITIES (cont'd)

(i) Principal subsidiaries (cont'd)

Name of company	Place and date of establishment/ operation	Attributable/ equity interest		Issued/ registered capital (Note a)	Principal activities
		Direct %	Indirect %		
Zhuhai Xiang Yi Aviation Technology Company Limited	PRC 10 July, 2002	51	–	USD 29,800,000	Provision of flight simulation service
CSN-ETC e-commerce (Note d)	PRC 10 October, 2002	51	–	5,880,000	Provision of e-commerce service
China Southern West Australian Flying College Pty Limited	Australia 26 January, 1971	65	–	AUD100,000	Pilot training services
CZ Flamingo Limited	Cayman Islands 8 December, 1993	100	–	USD1,000	Aircraft leasing
CZ Skylark Limited	Cayman Islands 17 November, 1993	100	–	USD1,000	Aircraft leasing
CZ Kapok Limited	Cayman Islands 26 October, 1993	100	–	USD1,000	Aircraft leasing
CSA-I Limited	Cayman Islands 1 September, 1993	100	–	USD1,000	Aircraft leasing
CZ93B Limited	Cayman Islands 11 May, 1993	100	–	USD1,000	Aircraft leasing
CZ97A Limited	Cayman Islands 2 January, 1997	100	–	USD1,000	Aircraft leasing
Zhong Yuan 99A Limited	Cayman Islands 15 February, 1999	100	–	USD1,000	Aircraft leasing
CXA92A Limited	Cayman Islands 3 August, 1992	–	60	USD1,000	Aircraft leasing
CXA93A Limited	Cayman Islands 1 July, 1993	–	60	USD1,000	Aircraft leasing
CXA95B Limited	Cayman Islands 7 July, 1995	–	60	USD1,000	Aircraft leasing
CXA95C Limited	Cayman Islands 16 October, 1995	–	60	USD1,000	Aircraft leasing
CXA98A Limited	Cayman Islands 20 March, 1998	–	60	USD1,000	Aircraft leasing
Xiamen Aviation Property Development Company	PRC 22 June, 1993	–	60	5,000,000	Property development



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

49 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES, AND JOINTLY CONTROLLED ENTITIES (cont'd)

(i) Principal subsidiaries (cont'd)

Name of company	Place and date of establishment/ operation	Attributable/ equity interest		Issued/ registered capital (Note a)	Principal activities
		Direct %	Indirect %		
Xiamen Aviation Advertising Company Limited	PRC 17 December, 1992	–	60	620,218	Aviation advertising
Xiamen Aviation Supplies Limited	PRC 30 July, 1997	–	60	8,560,000	Aviation suppliers
Xiamen Aviation Development Company Limited	PRC 18 February, 1998	–	54	5,000,000	Hotel operation
Bai Lu Finance Limited	Hong Kong 22 February, 1996	–	54	HKD10,000,000	Investment holding
Xiamen Air Holidays Limited	Hong Kong 28 April, 1994	–	54	HKD3,000,000	Travel services
Xiamen Macau Holidays Limited (Note c)	Macau 11 May, 1995	–	27.5	MOP1,000,000	Travel services
Shantou Hua Kang Air Catering Company Ltd (Note c)	PRC 22 June, 1994	–	42	10,000,000	Air catering
Zhuhai Air Holidays Limited	PRC 19 September, 2001	–	54.6	1,200,000	Travel services
Zhuhai Aviation Advertising Company Limited (Note d)	PRC 3 August, 1995	–	36	1,500,000	Advertising services
Guangzhou Baiyun International Express Customs Supervision Co. Ltd. (Note d)	PRC 28 July, 2003	–	55	5,000,000	Logistic operations

Notes:

- (a) Expressed in RMB, unless otherwise stated.
- (b) These subsidiaries are Sino-foreign equity joint venture companies
- (c) The Company holds over 51% equity interests in these companies through its non-wholly owned subsidiaries. The Company has a controlling interest in these companies through these non-wholly owned subsidiaries. These companies are therefore consolidated in the Group's consolidated financial statements.
- (d) Notwithstanding that the Group holds over 50% of the registered capital of these companies, the Company does not consolidate these companies into its consolidated financial statements because their assets and results of operation are not significant and have no significant effect on the Group's consolidated financial statements. Accordingly, the Group accounts for the investments in these companies under the cost method.

Other than those stated in Note (d) above, the Group has consolidated all of the above subsidiaries into its consolidated financial statements during the year ended 31 December, 2003.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

49 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES, AND JOINTLY CONTROLLED ENTITIES (cont'd)

(ii) Principal associated companies and jointly controlled entities

Name of company	Place and date of establishment/ operation	Attributable/ equity interest		Issued/ registered capital (Note a)	Principal activities
		Direct	Indirect		
		%	%		
Guangzhou Aircraft Maintenance Engineering Company Limited (Note b)	PRC 28 October, 1989	50	–	USD27,500,000	Provision of aircraft repair and maintenance services
Southern Airlines Group Finance Company Limited	PRC 28 June, 1995	32	15.42	300,000,000 and USD15,000,000	Provision of financial services
Hainan Phoenix Information System Limited	PRC 12 March, 1994	45	–	USD16,360,000	Provision of ticket reservation system services
Hong Kong Business Aviation Centre Company Limited	Hong Kong 7 January, 1998	20	–	HKD1,000,000	Provision of private flight support services
MTU Maintenance Zhuhai Co. Ltd (Note b)	PRC 6 April, 2001	50	–	USD63,100,000	Provision of engine repair and maintenance services
Zhuhai Air Express Co. Ltd (Note c)	PRC 26 February, 1997	–	18	3,000,000	Air express service
Gullin Guangsheng Development Co. Ltd. (Note c)	PRC 18 January, 2000	–	18	2,100,000	Wholesales and retailing
Civil Aviation Cares of Xiamen Ltd. (Note c)	PRC 14 September, 2001	–	17.1	2,000,000	Computer applications and hardware services
China Postal Airlines Limited (Note b)	PRC 25 November, 1996	49	–	306,000,000	Airline
Sichuan Airlines Corporation Limited	PRC 28 August, 2002	39	–	350,000,000	Airline

Notes:

(a) Expressed in RMB, unless otherwise stated.

(b) These are jointly controlled entities. They have been proportionately consolidated in the Group's consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

(Prepared under PRC Accounting Rules and Regulations)

49 PRINCIPAL SUBSIDIARIES, ASSOCIATED COMPANIES, AND JOINTLY CONTROLLED ENTITIES (cont'd)

Notes: (cont'd)

- (c) The results of the operations of these companies were not significant and had no significant effect on the Group's consolidated financial statements. Accordingly, the Group accounted for the investments in these companies under the cost method.

Other than those stated in Note (c) above, the associated companies were accounted for under the equity method in the Group's consolidated financial statements for the year ended 31 December, 2003.

50 EXTRAORDINARY GAIN AND LOSS

In accordance with the requirements of "Questions and answers on the preparation of information disclosures of companies issuing public shares No. 1 – Extraordinary gain and loss" (revised 2004), the extraordinary gain and loss of the Group are set out below:

	2003 RMB'000
Effect of change in income tax rate (Note 32)	516,245
Refund of medical benefit payments (Note 45(c))	58,120
Loss on sale of fixed assets	(19,014)
Various subsidies	3,880
Others, net	(13,263)
Total	545,968

51 POST BALANCE SHEET EVENTS

In April 2004, the Company entered into a purchase agreement with Airbus SNC for the acquisition of fifteen Airbus 320-200 aircraft and six Airbus 319-100 aircraft, scheduled for deliveries in 2005 and 2006.

52 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current year's presentation.

Certain comparative figures have been adjusted as a result of the change in accounting policy for profits appropriation, details of which are set out in note 2 to the financial statements.